

# **STATE OF MICHIGAN**

## **School Bond Loan Program Loan Application Process**

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# **BORROWING FROM THE SCHOOL BOND LOAN FUND**

## Overview

Section 16, Article IX of the Constitution of 1963 authorizes the establishment of the Michigan School Bond Loan Fund through the sale of state bonds and provides for loans to school districts for annual debt retirement needs. Public Act 108 of 1961 (The School Bond Loan Act), defines the requirements for school districts to qualify for the School Bond Loan Program as well as the requirements to borrow from the school bond loan fund. Public Act 202 of 1943 (Municipal Finance Act) establishes general requirements for all municipal debt including qualified school bonds. The federal Internal Revenue Code (IRC) establishes requirements for the use of tax exempt bonds.

Only bond issues that have received state qualification and maintain compliance with all other applicable state and federal regulations are eligible for borrowing from the school bond loan fund. Under the School Bond Loan Program, if the total annual bond principal and interest payments (debt service) of all qualified bonds require more than 7 mills, a district may request a loan from the state for the additional portion of the funds required to make full debt service payment rather than increase its current debt millage levy. See “Debt Millage Levy Requirements”.

This borrowing process continues until the required debt millage levy yields more revenue than the amount that is needed to pay debt service. At this point the district will begin to use the surplus to repay the loan principal and accrued interest.

When a school district intends to borrow from the school bond loan fund, it is important to understand the ongoing annual administrative effort that will be required for obtaining the loans and accounting for borrowing and repayments until the debt is repaid. Steps to be followed each year are as follows:

## Preliminary Loan Application Process

It is a statutory requirement that the district submit a completed *Preliminary Loan Application* 60 days prior to certifying its annual tax levy on September 30. Once a district begins borrowing from the fund, it must continue to follow the preliminary loan application process each year until its debt levy yield allows it to begin repaying the school bond loan fund. This application process provides the mechanism for the district to determine the proper millage rate for its qualified debt levy, the allocation of the debt millage between debt retirement funds (if the district has more than one), and an estimate of the amount to be borrowed from the state. These planning actions are required to provide assurance that all legal requirements are being met at the local level and to allow the Michigan Department of Treasury to take the necessary action to assure funds are on hand when needed.

The board of education must approve a resolution authorizing borrowing activity for the fiscal year and designating a district official to execute and submit required forms.

## Determining the Debt Millage Levy

When a bond issue originally receives qualification, the district’s financial advisor provides a millage impact table using estimated taxable value growth rates. This table projects the millage necessary to meet debt service and school bond loan fund activity. Each year Treasury evaluates the actual taxable value growth within the district and completes calculations to assure that the proposed debt millage levy will meet the

repayment requirements of the School Bond Loan Act. A district may be required to increase its debt service millage levy if taxable value growth does not occur as originally projected. If taxable value growth exceeds projections, the district will be able to repay its school bond loan fund debt sooner and, thereby, reduce the total amount of interest expense that the bond issue will cost the district's taxpayers.

### Debt Millage Levy Requirements

A borrowing district must maintain the following debt levy requirements until all amounts borrowed plus accrued interest have been repaid:

- Must levy a minimum of 7 debt mills.
- Must levy an additional millage as necessary so that all principal and interest due under this program will have been repaid to the state within 60 months after the final maturity date of all qualified bonds. The required debt millage levy is computed based on the following assumptions:
  - A projected total taxable valuation that assumes an average growth or decline rate based on an average of the district's immediately preceding five years.
  - An assumed interest rate on loans made under this program as provided by the State Treasurer. See "Interest Expense and Loan Balances" sections.
  - The same projected debt millage will be levied each year until the total debt due the state is repaid.

If the district has both qualified and non-qualified bonds, the non-qualified bonds cannot be considered when determining the required debt levy or included in amounts to be borrowed from the school bond loan fund.

### Multiple Debt Retirement Funds - Millage Allocation

If a district has more than one outstanding qualified bond issue and has not established a common pooled debt retirement fund in accordance with the Municipal Finance Act, it must take appropriate action to allocate the total debt millage levy between the various debt retirement funds. The *Preliminary Loan Application* identifies the debt service amount needed for each issue. Annually, districts should take appropriate action to allocate millage between debt retirement funds, so as to minimize the amount of funds to be borrowed from the school bond loan fund. Districts that have an excessive balance in one fund, while borrowing from the school bond loan fund to provide debt service in another fund, may be required to reallocate their millage before borrowing from the school bond loan fund.

It is recommended that districts establish a common debt retirement fund in order to reduce the administrative burden of borrowing and allocating to separate funds. However, if this has not been done, districts should allocate their millage between debt service funds based on the actual amounts needed for each debt retirement fund for the upcoming year.

### Municipal Finance Act Provisions

Corrections between debt retirement funds or transfer of final debt retirement balances of completed bond issues must be made under the provision of the Municipal Finance Act.

Any questions regarding the requirements for pooling, correcting, and closing debt retirement funds can be referred to the Municipal Finance Section, Michigan Department of Treasury, at 517-373-0660.

## Final Loan Application Process

The School Bond Loan Program Section processes school bond loans semi-annually, in April and October. Districts requiring school bond loan funds must submit a *Final Loan Application* 30 days prior to the date the proceeds are needed.

This application should be prepared using the most current debt retirement fund balance information and should identify the specific amount of funds to be borrowed in order to meet the next debt service payment. All bank wiring instructions must be included with the application.

Districts with more than one qualified bond issue may only commingle funds if a common debt retirement fund has been properly established by the bond authorization resolution. In the absence of common debt retirement fund authority, the district should not use money from one fund to reduce the borrowing required for another fund.

The School Bond Loan Program Section reviews the application, contacts the designated district official one to two weeks prior to the date the loan is needed to verify wiring instructions and to confirm the loan amount. At this time, the district may reduce the requested loan amount if additional taxes or interest have been received since the application was submitted. The School Bond Loan Program processes the confirmed loan amount by a wire transfer to the school district's account.

## Paying Agent Payment Procedures

Effective October 1998, all qualified bonds are issued with the stipulation that the district agrees to submit debt service payments for its qualified bonds to their paying agents no less than five business days prior to the debt service due date. Affected school districts must take appropriate action to deposit funds with their paying agents in accordance with the requirements that were agreed to at the time of final qualification.

## Loan Receipt and Agreement to Repay

As required by the School Bond Loan Act, a district must file a *Loan Receipt and Agreement to Repay* after each loan. Upon verification that the loan has been received, this form must be completed, signed and returned to the School Bond Loan Program Section.

## Loan Balance Statements

A detailed statement of a district's school bond loan activity and balance due will be provided to the school district each time a loan to the district is processed, a payment from the district is received, and at the end of the fiscal year. The statement has the following information:

Date:	Effective date of transactions.
Reference:	Either the state document number used to record loans and repayments <i>OR</i> the number of days and the interest rate used to calculate accrued interest.
Transaction:	An abbreviated description of the type of transaction being recorded
Amount:	The amount of the transaction.
Loan Amount:	The cumulative balance due of principal amounts loaned to the district.
Posted Interest:	The cumulative balance due of interest costs posted to the district's account through the previous September 30 posting period.
Accrued Interest:	The cumulative balance due of accrued interest costs accumulated since the previous September 30 posting period.
Total Due:	The cumulative balance due from the district to the school bond loan fund.

## Interest Expense

Interest is charged on the outstanding amount of loans plus posted interest using the average daily balance and a 365 (366) day year. Accrued interest is calculated and reported on the statement each time the balance of the loan changes or the interest rate changes. Annually, at the end of the state's fiscal year on September 30, the amount of interest accrued during the year will be transferred to the posted interest column.

The interest rate used to calculate interest expense is based on the average rate paid by the state on debt obligations issued to finance the loan program. This interest rate is subject to change anytime the state issues new debt to finance the loan program. School districts are notified when the interest rate changes.

## Repayment Procedure

Unlike bond principal and interest payments, there is no predetermined schedule for a district to repay the school bond loan fund. Districts are required to begin repaying the fund as soon as annual tax collections exceed annual debt service payment requirements. The *Preliminary Loan Application* process should confirm the district's ability to begin repaying the fund. Once repayment has begun, there should be no further need to borrow from the fund. However, districts must continue to levy debt millage in accordance with the Debt Millage Levy Requirements outlined earlier.

Districts reaching the repayment stage must complete a *Repayment Schedule Worksheet* each year before certifying the annual tax levy on September 30. This worksheet provides the mechanism for the district to determine the proper millage rate for its qualified debt and to properly allocate the debt millage between multiple debt retirement funds.

Prompt repayment is required by the School Bond Loan Act and will reduce the district's interest costs. After taking into account expected tax revenue collections, current debt retirement fund balances, and expected debt service payments, any excess funds on hand should be remitted to the State of Michigan immediately upon determination. Districts that have both a summer and winter tax levy, or have material amounts of delinquent tax payments may make multiple payments to the Michigan Department of Treasury as funds become available during the tax year.

Repayments to the school bond loan fund may be made by wire transfer or check. See Remittance Instructions within this bulletin. Before sending a payment, please contact the School Bond Loan Program Section by fax or phone to notify them of the expected payment date and amount.

Final payments to close out a district's school bond loan account must be pre-arranged with the School Bond Loan Program Section. The School Bond Loan Program Section will calculate the amount of interest due and determine the final payoff amount.

## Responsibilities

The School Bond Loan Program Section will provide application documents four to five weeks prior to the due date.

It is the school district's responsibility to take all necessary actions to collect appropriate taxes, complete and return loan application documents, and remit debt service payments properly. Refer to the following Calendar for Borrowing from the SBL fund.

## CALENDAR FOR BORROWING FROM THE SCHOOL BOND LOAN FUND

### Preliminary Loan Application

- July
  - Obtain local board authorization to apply for loans and designate the district official authorized to execute loan documents.
  - Submit completed Preliminary Loan Application to the Michigan Department of Treasury, School Bond Loan Program Section by **August 1**.
- September
  - Take appropriate local board action to set the winter debt millage levy.

### November Debt Service Payment (Final Loan Application)

- Complete November loan application and submit to School Bond Loan Program Section by **October 1**.
- October
  - Adjust loan request for tax revenue revisions that occurred after application was filed and return loan confirmation.
  - Verify receipt of loan funds and distribute among debt service accounts as appropriate.
- November
  - Process debt service payment to the paying agent, 5 days prior to debt service due date.
  - Complete *Loan Receipt and Agreement to Repay* form and return to School Bond Loan Program Section.
  - Make internal accounting entries to account for outstanding loans.

### May Debt Service Payment (Final Loan Application)

- March
  - Complete the May loan application and submit to School Bond Loan Program Section by **April 1**.
- April
  - Adjust loan request for tax revenue revisions that occurred after application was filed and return loan confirmation.
  - Verify receipt of loan funds and distribute among debt service accounts as appropriate.
- May
  - Process debt service payment to the paying agent, 5 days prior to debt service due date.
  - Complete *Loan Receipt and Agreement to Repay* form and return to School Bond Loan Program Section.
  - Make appropriate internal accounting entries to account for outstanding loans.
- June
  - Take appropriate local board action to set the summer debt millage levy.
  - Receive Statement of Account from School Bond Loan Program Section regarding principal, interest and total amount due to the School Bond Loan Fund.
  - Reconcile reported principal against district accounting records.
  - Distribute interest among debt retirement accounts as appropriate.
  - Provide loan records and balances to your auditors for inclusion in annual report.





## Preliminary Loan Application Form Completion

Authority: Public Act 108 of 1961, as amended

Completion: Required

Due Date: August 1

Purpose: To provide the mechanism for the district to determine the proper millage rate for its qualified debt levy and the allocation of the debt millage between multiple debt retirement funds. Also to provide Michigan Department of Treasury with information in order to finance expected loan payments.

Information Required to Calculate the Annual Amount of Loan Needed for Each Bond Issue:

Current taxable value

Debt service requirements

Millage to be levied for each outstanding qualified issue

Debt fund balance(s)

Documents to Return:

Preliminary Loan Application Cover Transmittal

Preliminary Loan Application

Preliminary Loan Worksheet

Representations and Covenants attachment

Backup documentation to verify debt accounts:

-Copy of bank statements with reconciled balance indicated, or

-Copy of audited balances

Certification:

Board approval

Suggestions for proper preparation:

- You will receive one of two worksheets based on your past tax year history (summer or winter tax collections). Please call the School Bond Loan Program Section if you have changed your tax year or receive the wrong schedule.
  - Schedule A: Summer only or Summer and Winter tax levies
  - Schedule B: Winter only tax levies
- If you have Microsoft Excel or a compatible software application, download an electronic version of the worksheet to your computer to take advantage of the automatic recalculation features.
- Allocate the millage based on the debt service needs for the current tax year. The millage levied for each outstanding debt issue may change from year to year. Debt fund accounts should have minimal funds remaining after the completion of the tax year. Districts should take note of excessive balances and take action to reallocate the next year.
- The reported debt fund balances should be supported with bank statements or audit confirmations submitted with the application. If the balances differ, you are required to provide a reconciliation schedule between the bank statements and the amounts listed on the application.
- Each outstanding qualified issue should be listed on the application.
- Review and follow the sample provided with the application. If you have any questions, please call your contact person at the School Bond Loan Program.

## Final Loan Application Form Completion

Authority: Public Act 108 of 1961, as amended

Completion: Required

Due Date: April 1: May loan due  
October 1: November loan due

Purpose: To make final application to the Department of Treasury to receive a loan for the purpose of making debt service payment on a qualified bond issue.

### Information Required to Calculate the Amount of Loan Needed for Each Issue:

Debt fund balances  
Estimated taxes & interest to be received prior to loan date  
Debt service requirements  
Wiring instructions for processing loan payment to bank account

Packet to be returned: Cover Transmittal  
Loan Application  
Loan Application Worksheet  
Copies of debt retirement bank statements with reconciliation and appropriate ending balances indicated.

Certification: District official designated for filing loan application forms

### Suggestions for proper preparation:

- If you have Microsoft Excel or a compatible software application, download an electronic version of the worksheet to your computer to take advantage of the automatic recalculation features.
- Each outstanding qualified issue should be listed on the application.
- A district cannot use the funds in one account to reduce the total borrowing amount. If a loan is not needed for a debt retirement account, enter a "0" on the "deficit/loan needed" line on the application form.
- The debt fund balances should be supported with bank statements submitted with the application. If the balances differ, you are required to provide a reconciliation schedule between the bank statements and the amounts listed on the application.
- If you have any questions, please call your contact person at the School Bond Loan Program.

## REMITTANCE INSTRUCTIONS FOR SCHOOL BOND LOAN FUND REPAYMENTS

### Option 1. Payment by Wire Transfer

Bank One, Michigan. Detroit, MI  
ABA Number 072000326  
Account Name State Treasurer  
Account Number 074-50  
(your school name)  
SBL Fund Repayment  
Credit Index # 08322  
CObj # 1990  
TC # 199  
Agency # 271

*\*In order to assure proper crediting of your account, please notify the SBL Section of the amount and the date wired, by fax.*

### Option 2. Payment by Check:

Mail Check to:

Michigan Department of Treasury  
P.O. Box 15128  
Lansing, MI 48901

Submit check with this letter or the following information:

Receipts Processing Division  
{your school district name}  
School Bond Loan Fund Repayment  
Credit Index # 08322  
CObj # 1990  
TC # 190  
Agency # 271

For any questions regarding this information contact:

Office of Cash and Debt Management  
School Bond Loan Section  
Phone (517) 335-1001  
Fax (517) 241-1233